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This document is hereby regraded to CONFIDENTIAL in accordance with the letter of 15 October 1978 from the Director of Central Intelligence to the Archivist of the United States.

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The following excerpts from a confidential report comprise the fifth in a series of reports on CSR/USSR trade under the terms of the Treaty of 12 April 1946:

1. In the text of the Treaty, the agreements in Article 3, concerning the establishment of prices on the basis of international trade prices at that time, or the competitive prices offered by other countries, are particularly noteworthy. For practical purposes, according to confidential information, this seemingly well-chosen step has not proven thoroughly satisfactory. The Czechoslovakian industry finds an easy market at high prices for most of the products in question - such as machine tools - due to the great demand for these products by England and other countries. The Soviets, however, insist that all these prices be based on the lower price offer of the United States, so that the Czechoslovak firms, despite advance sales and great export possibilities based on a more favorable pound rate, have to adhere to the lower U.S. prices and forego the better market possibilities. Also, the price disparity between the CSR and USSR standards presents difficulties.
2. Settlements are made according to Articles 6 and 7 of the Treaty: in Kcs from the special account in the Czechoslovak National Bank. In case of goods whose delivery was not originally anticipated, payment can be made in free currency - for the most part in American dollars - as specified in Article 8.
3. Comment on the rail transportation difficulties is indicated, especially on the limited capacity of the passageway at Cop-Mukadeve and on the broad-gauge Russian tracks which necessitate reloading of goods.
4. No arbitration committee was named in the agreement. For practical purposes, all Czech firm claims for goods and payment are to be directed to the Deputy for Trade with USSR and decided with the Soviet trade representative in Prague. In the event that no agreement can be reached on prices, the decision rests with the Czechoslovak Ministry for Foreign Trade and the USSR trade representative in CSR.
5. In the confidential report from the Office of the Deputy for Trade with USSR, GZ 148, certain criticisms were made apropos of the small quantities in which long-term orders are being delivered. Source adds the following observations as factors contributing to the slowness of these deliveries:
 - a. The reluctance of Czech industry to accept new export obligations.
 - b. Failure to reach a solution of the problem of cheaper long-term industrial credits.

a. The reluctance of Czech industry to accept new export obligations.

b. Failure to reach a solution of the problem of cheaper long-term industrial credits.

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- c. A reluctance on the part of the Soviets to make these deliveries right now, while they are presumably awaiting the first results of their own five-year plan before placing large orders for 1948 and later.
6. The significance of economic relations with USSR is emphasized by the Czech Government for the following reasons:
- a. The economic plan of both countries makes possible long-term agreements and stable conditions for the industry of Czechoslovakia without the previous price fluctuations and dependence on world markets. In Czech industrial circles, however, and particularly in nationalized industry, there is a certain amount of holding back in view of the expected future self-sufficiency of Soviet industry, which would then result in the Russians ceasing to order such items as farm machinery, glass, etc. Consequently, it is believed in Czech industrial circles that the adaptation of the Czech industry to the Soviet five-year plan will proceed with caution.
 - b. Czechoslovakian industry, as well as the Ministry for Foreign Trade, wishes now as before for the creation and cultivation of as great an export reserve as possible for the western and non-European countries. They realize that a change in the international scene may otherwise result in insurmountable difficulties for them. In the CSR it is well-established that the trade relations with USSR, even though of more immediate importance, must be regarded as merely a part of the Czechoslovak trade relations with other countries.
 - c. Most Czech exports consist of finished products, while USSR exports to CSR are largely raw materials.
7. The following are among the critical observations made by Czech industrialists and government officials on the disadvantages of trade relations with Russia to date:
- a. Czechoslovakian firms have no knowledge of the Russian tongue.
 - b. Russian terminology for various products is strange.
 - c. There are not even brochures, illustrations or catalogues in Russian.
 - d. There are repeated instances of failure on the part of the Soviets to adhere to prescribed quantity and quality of goods delivered.
 - e. Inadequate packing of incoming Russian goods has led to many complaints.
 - f. USSR factories receive no instructions for the use of various special products and machine tools.
 - g. Czech firms are often ignorant of the international trade prices, which leads to miscalculations.
 - h. Czech firms dealing with the Soviet office, Torgpredstvo, find the long forms burdensome.
 - i. It is not yet possible for Czech firms to deal directly with Russian factories, syndicates and individuals.
8. Czech firms have had several unfortunate experiences in dealing with Russian trade organizations. For example, when the Bata shoe concern accepted Russian orders for shoes, they submitted normal specifications for the leather they would need, and for the prices to be paid. Although the leather from USSR was of very poor quality, the Soviets still demanded delivery of the number of shoes originally agreed upon. There have been similar complaints in cotton transactions. Now, however, the Czech factories in private agreements have started to add a 20% "acceptance commission", under which plan work is progressing more smoothly.

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